



# PERFORMANCE PAY SYSTEM

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# Performance pay system

The state's performance pay system was developed with input from various stakeholders, and the process remains open to refinement and improvement. It is anticipated that the system evaluation component will drive additional changes in order for the performance pay system to remain relevant and effective. This document was written in accordance with Personnel Board Rules and Personnel Director's Administrative Procedures then in effect. Subsequent revisions to these could cause conflicting statements. If such a situation should arise, personnel rules and procedures ([www.state.co.us/dhr](http://www.state.co.us/dhr)) will always be the official documents upon which a ruling will be based or an interpretation will be made. ***This is a guide, not a contract.***

The performance pay system, which is referred to as “performance pay programs” for individual departments and higher education institutions, consists of three components: performance management, performance-based pay, and dispute resolution. Departments and higher education institutions are to develop and implement the components of their individual performance pay programs. The performance pay programs must be consistent with the following system-wide requirements and must be approved in advance by the State Personnel Director.

## Performance management

The performance management component is the cornerstone of the performance pay system.

1. The performance management component must include a detailed training plan for supervisors and employees. Training is mandatory for all raters. Various types of training opportunities and resource tools should be developed. Examples beyond traditional classroom training include computer-based training, printed materials, train-the-trainer programs, mentoring programs, and application of the state's competency database.
2. Appointing authorities and designated raters are responsible for communicating the department's or higher education institution's performance management component to their employees.
3. Performance will be rated based on four levels—unsatisfactory, satisfactory, above standard, and outstanding. Departments and higher education institutions may chose alternative labels for the four rating levels and may further define the levels in relation to mission and operational needs. The definition for the outstanding level, however, must reflect the concept that this rating is unique and difficult to achieve

because it represents consistently exceptional performance or achievement beyond the regular assignment.

4. Statewide, uniform core competencies (communication, interpersonal skills, customer service, accountability and job knowledge) as specified by the State Personnel Director must be incorporated into each individual performance plan and evaluation. These core competencies cannot be disregarded in the final overall rating for each employee. Competencies are defined as knowledge, skills, abilities, behaviors, and characteristics required for successful performance. Departments and higher education institutions may designate additional competencies specific to their organizations.
5. Departments and higher education institutions will design their own performance evaluation forms and are encouraged to use one form consistently throughout their department or higher education institution.
6. A planning session must be held between the supervisor and employee at the beginning of the performance cycle by a date specified in the performance pay program.
7. Employee performance plans should align with department or higher education institution goals and objectives.
9. The program must require coaching and feedback during the performance year, including at least one documented progress review.
10. Departments or higher education institutions may determine if performance ratings are based on a numerical, qualitative, or combination system as long as they maintain uniformity throughout the department or higher education institution. Ratings, whether numeric or qualitative, must convert to one of the four established rating levels.
11. An unsatisfactory performance rating will result in a performance improvement plan or a corrective action.
12. All employees will be evaluated, in writing, at least annually based on their job performance within the performance evaluation cycle. This performance evaluation cycle will be uniform within a department or higher education institution. The deadline for completing annual evaluations will be established by departments or higher education institutions as close to the July 1 payment date as possible while still allowing time to complete administrative processes.
13. Quotas or forced distribution processes for determining the number of department or higher education institution-wide ratings in any of the four performance levels will not be established.

14. Departments or higher education institutions are encouraged to consider multi-source assessment processes, where feasible, for evaluating employees.
15. The supervisor's (or rater's) evaluation of the employee's performance must be reviewed by a higher level.
16. The program must include a description of the department's or higher education institution's review process to monitor the quality and consistency of performance ratings within the department or higher education institution before final overall ratings are provided to employees.
17. If a supervisor fails to plan and/or evaluate an employee's job performance, the reviewer is responsible for completing the plan and/or evaluation. If the reviewer fails to plan and/or evaluate in a timely manner, the reviewer's supervisor is responsible for completing the plan and/or evaluation and on up the chain of command until the plan and/or rating is completed as required by law. If a rating is not given, the overall evaluation shall be satisfactory until a final rating is completed.
18. Each department or higher education institution will report required information (e.g., distribution of ratings, distribution of performance awards, number of disputes) to the Division of Human Resources by a specified deadline.
19. Supervisory accountability must be part of each department or higher education institution program. Those programs need to outline how supervisory compliance will be tracked, and most importantly, how noncompliance will be addressed. The programs must also detail the sanctions to be used, including any sanctions developed beyond those that currently exist.
20. Absent extraordinary circumstances, failure by any supervisor, including non-classified supervisors in higher education institutions and supervisors in the Senior Executive Service (SES), to provide timely plans and evaluations in accordance with established timelines will result in a corrective action and their ineligibility for a performance award. However, this does not require that a supervisor's overall performance rating be unsatisfactory. All supervisors, including non-classified supervisors in higher education institutions and SES supervisors, who fail to complete evaluations within 30 days of the corrective action are subject to CRS 24-50-118 (current statutory requirement for increments of 5-day suspensions for all supervisors failing to provide timely evaluations). Department or higher education institution programs must stipulate the process used to assure compliance with this law. Each higher education governing board should develop an accountability plan to implement these requirements and this accountability plan should be included in the program submitted to the State Personnel Director for approval.

21. Designated raters must be evaluated on their performance management and evaluation of employees.
22. The Division of Human Resources in the Department of Personnel and Administration and each department or higher education institution will monitor the imposition of sanctions in order to build credibility with employees, communicate the importance of performance management, and increase the accountability of supervisors.

## Performance-based pay

The pay component of the performance pay system will be governed by the following system-wide requirements:

1. Appointing authorities will make pay decisions based on the evaluations completed by raters and reviewers and within system boundaries, department or higher education institution programs, and budget allocations. This approach does not discount the recommendations of raters and reviewers. While the appointing authority makes the final decision, in reality it is based on “roll up” recommendations throughout the process.
2. The annual total compensation survey will be conducted according to statute. It is expected that departments and institutions shall allocate an amount of money for salary survey; and a separate amount of money for performance-based pay awards equal to the amount of money that would have been allocated for step increases.
3. For purposes of the state’s performance pay system, a pay range will be defined as the range of base salaries between a minimum and maximum amount set for a class. The job rate was eliminated on July 1, 2001 and the 5-year rate (formerly step 6) will be eliminated on July 1, 2002.
4. Annual performance awards (base building and non-base building) will be a percentage of the employee’s salary that is effective on the statewide common date of July 1 (after salary survey adjustments have been made), and payable in July. An employee entitled to a performance award will not be denied the award because of a corrective or disciplinary action. All performance awards are subject to available funding and no award will be guaranteed.
5. When an employee moves from one department or institution to another after receiving a final overall evaluation but prior to payment of the award (July 1<sup>st</sup>), the performance pay program of the receiving department or institution determines the performance award amount.
6. A department’s or institution’s performance pay program must address the payment of a performance award for employees new to the state personnel system during the performance cycle. If not addressed in the department’s pay program, the employee shall receive the full award percentage specified by the department or institution for the level of performance attained.
7. The performance pay system supports the payment of non-base building performance awards. Non-base building awards are one-time awards and are paid in one lump-sum amount each July. The statutory salary lid does not apply to non-base building performance awards. In contrast, base building awards continue as part of employees’ pay from the effective date forward.

8. The State Personnel Director will establish the statewide maximum award percentage for the outstanding level and will publish it annually, in conjunction with the Total Compensation Survey and the annual compensation plan.
9. Each department and institution shall specify the maximum award percentages for satisfactory and above standard performance levels based on its budget, salary distribution and distribution of ratings. The award percentage for each successive higher level of performance must be greater than the maximum award percentage for the lower level, e.g., the minimum award percentage for above standard must be greater than the maximum award for satisfactory; the minimum award percentage for satisfactory must be greater than 0 (needs improvement amount).
10. Except as provided in 6., employees shall be eligible for awards as follows:
  - a. If the final overall evaluation is satisfactory or above standard and base pay is below the range maximum, the employee may receive an award up to the amount for that performance level established by each department or higher education institution. The award may be base or non-base building, or a combination, not to exceed the range maximum. If the base pay is at the grade maximum or in saved pay above the maximum, the employee is ineligible for a performance award.
  - b. If the final overall evaluation is outstanding, the employee may receive an award up to the amount established by the department or higher education institution. The amount shall not exceed the statewide maximum percentage determined by the State Personnel Director. If base pay is below the range maximum, the award may be base or non-base building, or a combination; however, base pay shall not exceed the maximum. If base pay is at or above the range maximum, the employee may receive a non-base building award of any amount, not to exceed the statewide maximum percentage set by the State Personnel Director, at the sole discretion of the appointing authority.
  - c. The employee is ineligible for a performance award if the final overall evaluation is unsatisfactory.
11. Department and higher education programs must specify the minimum common criteria for distinguishing between non-base and base building, or combination performance awards to employees. The criteria must describe how these standards reflect the department's mission and operational needs and how the requirement for consistent treatment of similarly situated employees is met. Source of funds (e.g., cash or general), method of funding (e.g., appropriated or memorandum of understanding), and length of service shall not be criteria for distinguishing between non-base and base building performance awards.

12. Departments and institutions are strongly encouraged to use the variety of non-salary and monetary incentives currently available in the state personnel system to supplement salary-based performance awards. These incentives include discretionary pay differentials, when appropriate, i.e., matching pay, referral bonus, acting differentials, critical project differentials, and critical skill retention differentials. On-the-spot cash incentives are available as are a number of work-life programs such as flex time (flex schedule, compressed work week) and flex place. In fact, an Executive Order (D 0001 98) requires that supervisors and managers be evaluated on how well they use work-life policies and programs. A House Joint Resolution (HR 99-1044) encourages the use of flex time and flex place to relieve traffic congestion on state roads. The work-life executive orders and house joint resolution are posted at [www.state.co.us/dhr](http://www.state.co.us/dhr). Another Executive Order (D 0007), issued in 1996, allows departments to create cash incentive programs for individuals and teams.

The advantages to using these incentives are that they are flexible to fit the business needs of unique work settings and are available throughout the year. On the other hand, departments and higher education institutions must work within the reality of their budgets, which vary considerably.

13. Teamwork can be measured as a component of an individual's performance plan and awards (base and non-base) proportioned accordingly. Non-salary incentives and cash incentives already exist and can also be used to grant team awards. Although not prohibited, performance plans or awards based solely on team performance are not recommended for several reasons. Many teams do not control who is on a team because hiring and firing authority is vested in appointing authorities by law. Awards to team members should not suffer because one member's poor performance may be outside of the team's control.

Further, the system compensates employees individually. For example, some team members may be at the top of the pay range and some may be eligible for pay premiums like overtime. Some employees may believe that adding incentives for teamwork gives team members more than individuals who are not part of a team. This is not necessarily bad if an organization is trying to reinforce team behaviors.

13. Departments and higher education institutions are strongly encouraged to use executive compensation committees (senior department or higher education institution managers) to allocate funds among divisions and oversee the quality of the performance pay program within their organizations. The use of an executive committee can lead to greater fairness and consistency of award allocation throughout the department or higher education institution.



## Dispute resolution

Employees may question certain matters regarding performance plans and ratings through the State Personnel Director's dispute resolution system. Dispute resolution moves away from a traditional adversarial system toward one that supports and encourages dialogue and communication to solve problems.

1. The State Personnel Director retains jurisdiction for disputes related to performance evaluations that do not allege discrimination or result in corrective or disciplinary action. This has been delegated to the Division of Human Resources.
2. The formal dispute resolution system has two stages--internal to the department or institution and external to the Division of Human Resources (DHR). Informal resolution of disputes at the lowest level shall be encouraged.
3. The dispute resolution system must be open and impartial and must allow the parties an opportunity to have issues heard.
4. The State Personnel Director must approve department or institution (internal) dispute resolution processes.
5. The process for the internal dispute resolution stage must be communicated to employees and include: 1) time limits for filing written requests, 2) who will review and decide issues, 3) time limits for issuing written decisions, and 4) other requirements established by the State Personnel Director.
6. Employees may only dispute the following issues: 1) their own performance plan (or lack of a plan), 2) their own final performance rating (or lack of a final rating), 3) application of the department's performance pay program, policies or processes to the individual employee's plan and/or final evaluation, and 4) full payment of an award.
7. The following issues are not disputable: 1) the content of the department's or higher education institution's performance pay program, 2) matters related to the funds appropriated, 3) the performance ratings and rewards of other employees, and 4) the amount of a performance award, including whether it is base or non-base building, any combination or none unless the issue involves the application of the department's performance pay program to the individual employee's performance plan and/or final rating.
8. Department or institution appointing authorities shall be the decision-makers in the internal dispute resolution process. Appointing authorities may delegate this authority, but the delegation must be in writing and publicized in advance, printed

on the department's or institution's evaluation form. All employees must be notified of the authorized decision-maker for their disputes.

9. Throughout the dispute resolution process (internal and external), decisions are limited to addressing facts surrounding the current action and shall not substitute their judgment for that of the rater and reviewer, but may instruct raters to 1) follow the agency program, 2) correct errors, 3) reconsider a performance rating or plan, or 4) suggest other appropriate processes such as mediation. A decision cannot be rendered that would alter the department's or institution's performance pay program.
10. Final resolution of issues concerning the individual's performance plan (or lack of plan) and the individual's final performance rating shall occur at the internal level. Employees will have no further recourse for resolution of these disputes.
11. Disputes concerning application of the department or institution's performance pay program, policies or processes to the individual employee's performance plan and/or final evaluation, or full payment of an award may proceed beyond the department or higher education institution level to the external stage after completion of the internal process.
12. For issues disputable at the external stage, the employee shall be given written notice, including deadlines and address for filing, and the requirement to include a copy of the original written dispute and the department's final decision.
13. DHR administers the external process. Only those original issues involving the application of the department's or institution's performance pay program to the individual performance plan and/or final evaluation, or full payment of an award may advance to this stage.
  - a. Within five working days from the date of the department's final decision, an employee may file a written request for review with the Director at 1120 Lincoln Street, Suite 1420, Denver, CO 80203.
  - b. The request for external review shall include a copy of the original issue(s) submitted in writing and the department's or institution's final decision.
14. The State Personnel Director or designee may select a qualified neutral third party to review the matter. The Director or designee has 30 days to issue a written decision that is final and binding.
15. Only issues originally presented in writing shall be considered throughout the dispute resolution process.

- 16.No party has an absolute right to legal representation, but may have an advisor present. The parties are expected to represent and speak for themselves. The definition of an advisor is included in the Personnel Director's Administrative Procedures.
- 17.Retaliation against any person involved in the dispute resolution process is prohibited.

# First-year transition

Anniversary increases end on June 30, 2002.

## **Annualization**

For the first year only, annualization of individual performance awards is a system-wide requirement. Employees who received anniversary increases during Fiscal Year 01-02 are required to have their awards annualized. For those employees who did NOT receive an anniversary increase (new employees hired into the state personnel system, employees in the five-year rate, and employees at range maximum), each department may choose to annualize these employees' performance awards or pay the full percentage. Regardless of the option used by departments, it must be applied consistently for similarly situated employees.

The following provides answers to questions employees might raise about annualization.

### **Why are performance pay awards annualized?**

Annualization achieves two statutory requirements of the performance pay system:

1. To bring all employees to a common anniversary date – July 1 (the beginning date of the state's fiscal year)
2. To ensure cost-neutrality for the pot of money assigned for performance awards.

### **Could these requirements be achieved in a different way?**

Yes. However, the Executive Oversight Committee carefully considered numerous ways to achieve these requirements, and they chose annualization because it achieves the requirements and provides the Joint Budget Committee the added confidence that the award pot would definitely be cost neutral.

### **Are all performance awards annualized?**

Awards for employees who received an anniversary increase this Fiscal Year 01-02 must be annualized. Awards for other employees (those in five-year range or range maximum, and new employees) may be annualized. This was left to the discretion of each department's performance pay program.

### **What does annualization mean?**

Annualization is a budgetary term that refers to the yearly value of a pot of money that is only paid out during a portion of the year. For instance, when the state gave anniversary increases, an employee slated to receive a \$2,400 base increase on January 1 would actually get 6/12 or ½ of that award or \$1,200 dollars during that fiscal year. Thus, the annualized amount of that anniversary increase is \$1,200 for the fiscal year budget.

**How does annualization with performance pay awards?**

An employee with a former anniversary date of January 1 who received an anniversary increase in FY 01-02 may be slated to get a \$2400 performance award. Beginning on July 1, 2002, and ONLY FOR THIS TRANSITION YEAR (02-03) AS ALL EMPLOYEES MOVE TO A COMMON ANNIVERSARY DATE, that employee will get 6/12 or ½ of the total award annualized or an additional \$100 per month, or \$1,200 total just as under the anniversary system, beginning July 1, 2002.

**Does this mean that some employees will get the same award but different payouts?**

Yes. But the following example illustrates how four employees with different anniversary dates are fairly compensated by annualization.

During FY 01-02, Employee A did not receive an anniversary award and therefore will not have her award annualized. Employee B received an anniversary award on October 1, 2001. Employee C received an anniversary award on January 1, 2002. And Employee D received an anniversary award on March 1, 2002.

All four employees are making \$48,000 on June 31, 2002 and will get a 5% performance award that amounts to \$2,400. Employee A will get the full award that amounts to \$2,400 annualized or an additional \$200 a month beginning July 1, 2002. Employee B will get 9/12 of the award, which amounts to \$1,800 annualized or \$150 a month beginning July 1, 2002. Employee C will get 6/12 of the award, which amounts to \$1,200 annualized or \$100 a month beginning July 1, 2002. Employee D will get 3/12 of the award, which amounts to \$600 annualized or \$50 a month beginning July 1, 2002.